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1997

# Comment Letters to proposed statement on auditing standards and statement on standards for attestation engagements : establishing an understanding with the client;

American Institute of Certified Public Accountants. Accounting Standards Executive Committee

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June 11, 1997

File Ref. Nos 1120  
2138

To the Auditing Standards Board:

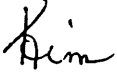
Attached are the comment letters received to date on the exposure draft, *Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements, Establishing an Understanding with the Client*.

<u>Name/Affiliation</u>	<u>Location</u>
1. Michael C. Haas Morton Alan Haas & Co.	Glendale, CA
2. Richard J. McDonnell Office of Financial Approvals Maritime Administration	Washington, D.C.
3. Grover C. Austin Louisiana Legislative Auditor	Louisiana
4. Ken Goodheart Friedman, Goldberg & Mintz, LLC	Deerfield, IL
5. Thomas H. McTavish Auditor General - State of Michigan	Lansing, MI
6. Frank J. Koster Arthur Andersen LLP	Chicago, IL
7. James A. Koepke PCPS Technical Issues Committee	AICPA
8. Julian Jacoby and Walter M. Primoff New York State Society of CPAs	New York, NY
9. Jeffery D. Solomon Massachusetts Society of CPAs	Boston, MA
10. Marlene Gazda New Hampshire Society of CPAs	Bedford, NH

Page 2  
June 11, 1997

Please call me at 212/596-6026 if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "Kim".

Kim Gibson  
Technical Manager  
Audit and Attest Standards

cc: Auditor Communications Task Force

June 24, 1997

File Ref. Nos 1120

2138 ✓

To the Auditing Standards Board:

Attached are the comment letters received to date on the exposure draft, *Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements, Establishing an Understanding with the Client*.

<u>Name/Affiliation</u>	<u>Location</u>
11. Harvey C. Eckert Deputy Secretary for Comptroller Commonwealth of Pennsylvania	Harrisburg, PA
12. Deloitte & Touche LLP	Wilton, CT
13. George A. Lewis Broussard Poche Lewis & Breaux	Lafayette, LA
14. Thomas R. Meseroll Office of the State Auditor - New Jersey	New Jersey
15. Price Waterhouse LLP	Stamford, CT
16. Coopers & Lybrand LLP	Jersey City, NJ
17. Crowe, Chizek and Company LLP	South Bend, IN
18. Unknown E-mail	Unknown
19. KPMG Peat Marwick LLP	New York, NY
20. Ernst & Young LLP	Cleveland, OH
21. R. Thomas Wagner, Jr National State Auditors Association	Lexington, KY
22. Sharon R. Russell Association of Government Accountants Financial Management Standards	Alexandria, VA

June 24, 1997  
page 2

**Name/Affiliation**

**Location**

23. Daniel R. Sandstrom  
Maryland Association of CPAs

Lutherville, MD

Please call me at 212/596-6026 if you have any questions.

Sincerely,



Kim Gibson  
Technical Manager  
Audit and Attest Standards

cc: Auditor Communications Task Force

MORTON ALAN HAAS & CO.

CERTIFIED PUBLIC ACCOUNTANT

FOUNDED 1949

520 NORTH CENTRAL AVENUE • SUITE 600 • GLENDALE, CALIFORNIA 91203

TELEPHONE (818) 552-2384 • FACSIMILE (818) 552-3501

March 31, 1997

MICHAEL C. HAAS, C.P.A.

GARY B. HAAS

MORTON ALAN HAAS, C.P.A.  
(1921-1995)

Ms. Kim M. Gibson  
Technical Manager  
Audit and Attest Standards  
**File 2138**  
AICPA  
1211 Avenue of the Americas  
New York, New York 10036-8775

Dear Ms. Gibson:

I am writing in response to the March 7, 1997 exposure draft on a proposed statement on auditing standards and statement on standards for attestation engagements entitled "Establishing an Understanding with the Client."

Proposed Statement on Auditing Standards: paragraph 6, last sentence: I think the engagement letter should be made mandatory and that the items listed in this paragraph be included in the engagement letter. I think the items in paragraph 7 then should be shown as recommendations, but not requirements, to be included in the engagement letter.

Thank you for allowing me to express my views.

Very truly yours,

MORTON ALAN HAAS & CO.

By   
MICHAEL C. HAAS

MCH/pf



U.S. Department  
of Transportation

Maritime  
Administration

400 Seventh Street, S.W.  
Washington, D.C. 20590

April 1, 1997

Ms. Kim Gibson  
Technical Manager, Audit and Attest Standards  
File 2138  
AICPA  
1211 Avenue of the Americas  
New York, N.Y. 10036-8775

Dear Ms. Gibson:

The Maritime Administration, Department of Transportation provides Federal Guaranteed loans for the construction of ships and modernization of shipyards. In order to establish and set adequate mortgage collateral we routinely require certifications of costs paid by debtors which are attested to by their CPA firms.

We believe that it would be helpful that the CPA firm be provided by their clients with our relevant regulations covering paid costs as part of the engagement procedures. We have found in the past that occasionally the certifications are not in accordance with our regulations.

We accordingly recommend that paragraph 7 on page 8 of the proposed statement be expanded to include the following two additions:

- . Identification of prospective users relying on the engagement.

- . Stipulated audit steps and reporting requirements by prospective users.

We would be pleased to further assist you in your deliberations. If you have any questions you may contact me at 202-366 5861.

Sincerely,

Richard J. McDonnell, Director  
Office of Financial Approvals

---

Author: PC:gaustin@lla.state.la.us at INTERNET  
Date: 5/5/97 9:39 AM  
Priority: Normal  
TO: Kim Gibson at AICPA3  
Subject: Establishing An Understanding With the Client

----- Message Contents -----

Kim Gibson, AICPA

Re: Proposed SAS/SSAE on Establishing an Understanding With the  
Client

I have reviewed the exposure draft Establishing an Understanding With the Client and generally agree with the exposure draft.

Paragraph 5 requires the auditor to establish an understanding with the "client," but does not define "the client." Is this the audit committee (realizing there are other statements that deal with audit committees), board of directors, chief financial officer, chief executive officer, or some combination of individuals? It would be helpful if that term was clarified by footnote.

I hope these comments prove beneficial to the board's deliberations.

Grover C. Austin  
Assistant Legislative Auditor  
Legislative Auditor  
504/339-3869



May 12, 1997

Ms. Kim M. Gibson,  
Technical Manager  
Audit and Attest Standards, File 2138  
AICPA, 1211 Avenue of the Americas  
New York, New York 10036-8775

**RE: Exposure Drafts Concerning Establishing an Understanding with the Client**

Dear Ms. Gibson:

Can the final Statements on Auditing Standards and Standards for Attestation Engagements (i) require written engagement letters and (ii) require that those engagement letters be "refreshed" in writing annually? (This should also be done for review and compilation engagements.) Accounting firms that attempt to get signed engagement letters get arguments from clients who say:

"My prior accountant didn't require this; don't you trust me?"

"My brother is a CPA and he says written engagement letters aren't required and that I shouldn't sign one"

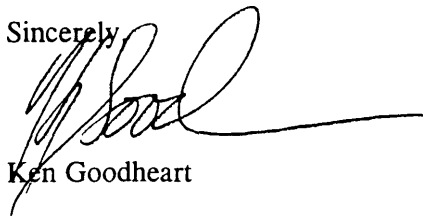
"I going to use another accounting firm that doesn't require written engagement letters because my attorney will charge me \$500 to review this"

"Why are you suddenly asking me to sign an engagement letter when I've been your client for twenty years and you never did this before?"

I can be reached at:

Ken Goodheart  
Friedman, Goldberg & Mintz, LLC  
155 Pfingsten Road  
Deerfield, Illinois 60015  
Telephone: (847) 374-0400  
Fax: (847) 374-0420

Sincerely,



Ken Goodheart



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
(517) 334-8050  
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

May 15, 1997

Ms. Kim Gibson, Technical Manager  
Audit and Attest Standards, File 2138  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, New York 10036-8775

Dear Ms. Gibson:

We have reviewed the Exposure Draft (ED) of the proposed Statements on Auditing Standards (SAS) and on Standards for Attestation Engagements (SSAE), entitled *Establishing an Understanding With the Client*, and have the following two comments for consideration by the Auditing Standards Board (Board) in developing the final documents.

1. The third and fourth sentences in Paragraph 5 of the ED, regarding establishing an understanding with the client in the proposed SAS, state that "The auditor should document the understanding in the working papers, preferably through a written communication with the client. When the auditor believes an understanding with the client has not been established, he or she should ordinarily decline to accept or perform the engagement." We have two concerns with this guidance. First, to ensure that both parties are adequately protected in the engagement, we believe that the auditor should always document the understanding with the client through written communication. Second, we believe that this paragraph should explicitly require the auditor to engage in sufficient communication before he or she determines that an understanding has not been established. Therefore, we suggest that the Board revise the third and fourth sentences in Paragraph 5 to read "The auditor should document the understanding in the working papers, through written communication with the client. When the auditor has engaged in sufficient communication with the client, but believes an understanding with the client has not been established, he or she should ordinarily decline to accept or perform the engagement."

We also suggest that the Board revise the third and fourth sentences of Paragraph 32 of the ED, regarding establishing an understanding with the client in the proposed SSAE, in a similar manner.

Ms. Kim Gibson

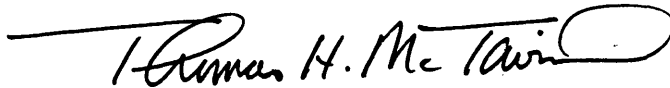
Page 2

May 15, 1997

2. Paragraphs 5 and 32 of the ED provide identical guidance for establishing an understanding with the client in the proposed SAS and the proposed SSAE, respectively. However, the proposed SAS also provides the auditor with additional detailed guidance in Paragraphs 6 and 7 on those types of matters (e.g., the objectives of the engagement, management's responsibilities) that may be included in the understanding with the client. We believe that this guidance would also benefit the practitioner performing an attestation engagement. Therefore, we suggest that the Board expand the proposed SSAE to provide additional detailed guidance (presumably as Paragraphs 33 and 34) on those types of matters that may be included in the understanding with the client.

We appreciate this opportunity to comment on the Exposure Draft. Should you have any questions, or desire further details on our comments, please contact me or Jon A. Wise, C.P.A., Director of Professional Practice.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is fluid and cursive, with a large loop at the end of the last name.

Thomas H. McTavish, C.P.A.  
Auditor General

# ARTHUR ANDERSEN

---

Arthur Andersen LLP

---

33 West Monroe Street  
Chicago IL 60603-5385

June 2, 1997

Ms. Kim Gibson  
Technical Manager  
Audit and Attest Standards  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, New York 10036-8775

Dear Kim:

Enclosed is our Firm's Comment Letter on the proposed SAS, Establishing an Understanding With the Client.

Very truly yours,



Frank J. Koster

Enclosure

# ARTHUR ANDERSEN

June 2, 1997

---

Arthur Andersen LLP

Ms. Kim Gibson  
Technical Manager  
Audit and Attest Standards  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, New York 10036-8775

---

33 West Monroe Street  
Chicago IL 60603-5385

Re: File 2138 Exposure Draft of Proposed Statement, *Establishing an Understanding With the Client*

Dear Kim:

This letter contains our comments on the exposure draft.

We support the proposed standard that would require the auditor to establish an understanding with the client, preferably through an engagement letter, regarding the audit or other attest services to be provided. We believe such a requirement will contribute to the effectiveness and efficiency of the audit process because it will avoid later misunderstandings between the client and the auditor as to their respective responsibilities.

## Other Comments

*Paragraph 6 – Declining to express an opinion* – This paragraph includes, among the matters to be communicated to the client, a statement that, “if for any reason the auditor is unable to complete the audit, the auditor may decline to express an opinion or issue a report as a result of the engagement.” Paragraph AU 508.61 states that, “an auditor may decline to express an opinion whenever he is unable to form or has not formed an opinion as to the fairness of the presentation of the financial statements in conformity with generally accepted accounting principles.” AU 508.61 includes not only situations in which the auditor is unable to complete the audit, but those in which there is a material uncertainty or substantial doubt about going concern of such magnitude as to preclude an opinion on the financial statements taken as a whole. Accordingly, we suggest that the final standard be revised to state that, “if, for any reason, the auditor is unable to form or has not formed an opinion, the auditor may decline to express an opinion or issue a report as a result of the engagement.”

*Indemnity* - The SAS should acknowledge the indemnity cited in the Ethics Ruling on Independence, *Integrity and Objectivity* (No. 94).

*Paragraph 5 – Timing of the understanding.* The paragraph seems to imply that the auditor should not start fieldwork until the understanding is reached. Since some engagement letters are dated after fieldwork has begun, the SAS should acknowledge that possibility, and that the date of the

# ARTHUR ANDERSEN

Ms. Kim Gibson  
Page 2  
June 2, 1997

written communication with the client might be later than the date the understanding was reached.

*Paragraph 7 – Additional optional matters.* The understanding also might cover:

- o Audits of subsidiaries by other auditors, including whether reference will be made to their reports.
- o Acknowledge that the auditor's opinion may be other than unqualified because of existing circumstances such as first-time-through engagements, inability to observe opening inventories or ERISA-disclaimer audits.

*Paragraphs 7 – Engagement letter contents.* The introductory sentence should indicate that the listed items also might be included in the engagement letter.

---

We would be pleased to discuss our comments at your convenience.

Very truly yours,

ARTHUR ANDERSEN LLP



Division for CPA Firms



June 3, 1997

Ms. Kim Gibson, Technical Manager  
Auditing Standards  
American Institute of CPAs  
1211 Avenue of the Americas  
New York, NY 10036

**Re: Exposure Draft: Proposed Statement on Auditing Standards and Statement Standards For Attestation Engagements, "Establishing an Understanding with the Client"**

Dear Ms. Gibson:

One of the objectives that the Council of the American Institute of CPAs established for the Private Companies Practice Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee ("TIC"). This communication is in accordance with that objective.

TIC has reviewed the above referenced exposure draft and is providing the following comments and suggestions for your consideration.

**Other Communications Required by Generally Accepted Auditing Standards**

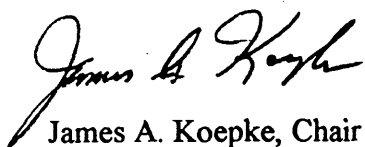
Paragraph 6, the last bullet item, says that the auditor is responsible for making any other communications required by generally accepted auditing standards. The members of TIC feel that this should indicate that the auditor *may be* responsible for making other communications to more clearly cover situations where other communications are not required. For example, many small clients do not have attorneys or audit committees, rendering attorney confirmations and SAS 61 letters unnecessary.

**The Attorney's Letter**

The members of TIC feel that paragraph 7, listing other matters that may be included in an understanding with the client, should also list an attorney's letter. It is currently common practice in the engagement letter to reach an understanding with the client as to the possible need for an attorney's letter, and also the probable fee associated with the attorney's letter.

We appreciate the opportunity to present these comments on behalf of the Private Companies Practice Section. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "James A. Koepke". The signature is fluid and cursive, with a large initial "J" and a long, sweeping underline.

James A. Koepke, Chair  
PCPS Technical Issues Committee

JAK:ses

cc: PCP Executive and PCPS Technical Issues Committees



**OFFICERS**

BARRY B. SEIDEL, CPA  
GEORGE T. FOUNDOTOS, CPA  
SHARON SABBA FIERSTEIN, CPA  
ANTHONY J. MALTESE, CPA  
BARRY F. DOLL, CPA  
RICHARD L. HECHT, CPA  
ELLIOT L. HENDLER, CPA  
ARTHUR S. HOFFMAN, CPA  
ROBERT L. GRAY, CPA

PRESIDENT  
PRESIDENT-ELECT  
VICE-PRESIDENT  
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VICE-PRESIDENT  
VICE-PRESIDENT  
SECRETARY  
TREASURER  
EXECUTIVE DIRECTOR



NEW YORK STATE SOCIETY  
OF  
CERTIFIED PUBLIC ACCOUNTANTS  
530 FIFTH AVENUE  
NEW YORK, NY 10036-5101  
(212) 719-8300/FAX (212) 719-3364  
<http://www.luca.com>

**nysscpa**

June 5, 1997

Kim Gibson, Technical Manager, Audit and Attest Standards  
AICPA  
1211 Avenue of the Americas  
New York, N.Y. 10036-8775

Re: Exposure draft of a Proposed Statement on Auditing Standards-**Establishing an Understanding with the Client**-File 2138

Dear Ms. Gibson:

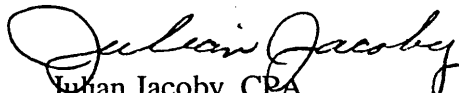
The New York State Society of Certified Public Accountants is pleased to submit our comments on the above exposure draft. The comments were developed by the Society's Auditing Standards and Procedures Committee.

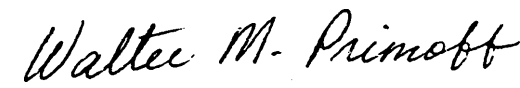
Sample Engagement letter(s) for both auditing and attest engagements would be helpful to practitioners.

Clarification is needed for the following issue ---Once the understanding is established, isn't it necessary to reestablish that understanding periodically. The document does imply an annual understanding is needed, but is not specific

We hope these comments will be helpful. If you wish to pursue further any of these issues, please let us know and we will have someone from the Committee contact you.

Very truly yours,

  
Julian Jacoby, CPA  
Chair, Auditing Standards  
and Procedures Committee

  
Walter M. Primoff, CPA  
Director, Professional Programs

cc: Accounting & Auditing Committee Chairs



June 1, 1997

Ms. Kim Gibson, Technical Manager  
Audit & Attest Standards, File 2138  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036-8775

RE: *Proposed Statement on Auditing Standards & Attestation Engagements*  
— *Establishing an Understanding With the Client*

Dear Kim:

The Accounting Principles and Auditing Procedures Committee is the senior technical committee of the Massachusetts Society of Certified Public Accountants. The Committee consists of over thirty members who are affiliated with public accounting firms of various sizes, from sole proprietorships to international "big six" firms, as well as members in both industry and academia. The Committee has reviewed and discussed the Proposed Statement on Auditing Standards & Attestation Engagements "Establishing an Understanding With the Client," (the Proposal). The views expressed in this comment letter are solely those of the Committee and do not reflect the views of the organizations with which the Committee members are affiliated.

The Committee concluded that the basic principles and guidelines outlined in the Proposal were appropriate.

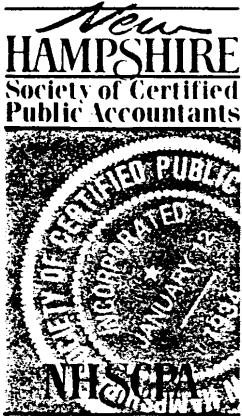
We appreciate the opportunity to present our comments and thank you for your consideration.

Very truly yours,

A handwritten signature in black ink that reads "Jeffrey D. Solomon, CPA". The signature is written in a cursive, flowing style.

Jeffrey D. Solomon, CPA, Chairman  
Accounting Principles & Auditing Procedures Committee  
Massachusetts Society of Certified Public Accountants

June 6, 1997



Kim M. Gibson, Technical Manager  
Audit and Attest Standards, File 4302  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036-8775

**RE: Response to the following Exposure Drafts:**

- 1. Proposed Statement on Auditing Standards - Communications between Predecessor and Successor Auditors**
- 2. Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements - Establishing an Understanding with the Client**

Dear Kim:

Our Accounting & Auditing Committee did not see any problems with either of these documents and wish to be recorded as in agreement with their content and intent. A general comment would be that they may be 'helpful' and offer no material change in the way practitioners do things.

Sincerely,

Marlene Gazda  
Executive Director

MG/ams



COMMONWEALTH OF PENNSYLVANIA  
GOVERNOR'S OFFICE  
HARRISBURG

HARVEY C. ECKERT  
DEPUTY SECRETARY FOR COMPTROLLER OPERATIONS  
OFFICE OF THE BUDGET

June 11, 1997

Ms. Kim Gibson  
Technical Manager  
Audit and Attest Standards  
File 2138 and File 4302  
American Institute of Certified  
Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Gibson:

We have reviewed the Exposure Drafts entitled "Proposed Statement on Auditing Standards and Statement on Standards For Attestation Engagements, Establishing an Understanding with the Client", and "Proposed Statement on Auditing Standards, Communications Between Predecessor and Successor Auditors" and have no comments. We appreciate the opportunity to review these Exposure Drafts.

If you have any questions, please contact Herbert A. Maguire, Director of the Bureau of Audits at 717-783-0114.

Sincerely,

A handwritten signature in black ink, appearing to read "Harvey C. Eckert", with a long horizontal stroke extending to the right.

Harvey C. Eckert

cc: Herbert A. Maguire

# Deloitte & Touche LLP



Ten Westport Road  
P.O. Box 820  
Wilton, Connecticut 06897-0820

Telephone: (203) 761-3000  
ITT Telex 66262  
Facsimile: (203) 834-2200

June 13, 1997

Ms. Kim Gibson  
Technical Manager  
Audit and Attest Standards  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036-8775

Re: File 2138

Dear Ms. Gibson:

We are pleased to comment on the Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements, *Establishing an Understanding With the Client*.

We support amending existing standards to provide guidance on obtaining an understanding with the client, and believe that the proposed guidance should help reduce misunderstandings as to the nature of audit or attest engagements to be performed.

The attachment to this letter contains several editorial comments for your consideration. Please contact John Fogarty at (203) 761-3227 if you wish to discuss our comments.

Sincerely,

*Deloitte & Touche LLP*

## **EDITORIAL COMMENTS**

### **Paragraph 5 of AU sec. 310 and paragraph 32 of AT sec. 100**

Because of the circular nature of the last sentence of proposed paragraph 5 of AU sec. 310 and paragraph 32 of AT sec. 100 (i.e., an understanding has not been established until it has been established), we believe it should be revised to read as follows: **“If the auditor [practitioner] is unable to establish an understanding with the client,** he or she should ordinarily decline to accept or perform the engagement.”

### **Paragraph 1 of the Proposed Statement on Standards for Attestation Engagements**

Although it is unclear whether it is intended for the proposed paragraph 32 to be inserted as a new paragraph within AT sec. 100, and existing paragraphs 32 through 81 renumbered, we question the appropriateness of the placement of such paragraph under the “Standards of Fieldwork” heading. Such placement is inconsistent with the proposed placement in the Auditing Standards. We believe that a more consistent placement would be to insert the proposed paragraph following paragraph 5 of AT sec. 100 and preceding the “General Standards” heading.

---

Author: PC:GALBPLB@aol.com at INTERNET

Date: 6/17/97 9:17 AM

Priority: Normal

TO: Kim Gibson at AICPA3

TO: Thomas Ray at AICPA3

Subject: Exposure Draft: Establishing an Understanding With the Clie

----- Message Contents -----

I have the following comment on the Exposure Draft: Establishing an Understanding With the Client:

Paragraph 7:

"Arrangements to be made with a predecessor auditor" seems to be a little bit late if the revision for SAS No. 7 is approved as exposed. It is my understanding that the SAS 7 revision requires the communication with the predecessor auditor before the engagement is accepted (whatever that means).

The letter referred to in this exposure draft seems to me to be the acceptance of the engagement and the formalization of that contract.

Certainly, I would not expect the engagement letter between the auditor and the client to impose arrangements on a third party who is not a part of the agreement.

Either this item should be dropped or some explanation should be added as to what is contemplated.

George Lewis

LEGISLATIVE  
SERVICES COMMISSION

SENATOR  
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*Chairman*

ASSEMBLYMAN  
JACK COLLINS  
*Vice-Chairman*

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JOHN A. LYNCH

GENERAL ASSEMBLY  
CHRISTOPHER "KIP" BATEMAN  
JOSEPH CHARLES, JR.  
PAUL DiGAETANO  
JOSEPH V. DORIA, JR.  
NICHOLAS R. FELICE  
NIA H. GILL  
LORETTA WEINBERG



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OFFICE OF LEGISLATIVE SERVICES  
OFFICE OF THE STATE AUDITOR  
125 SOUTH WARREN STREET  
CN-067  
TRENTON, NEW JERSEY 08625-0067

ALBERT PORRONI  
*Executive Director*  
(609) 292-4625

RICHARD L. FAIR  
*State Auditor*  
(609) 292-3700  
FAX (609) 633-0834

June 17, 1997

Ms. Kim M. Gibson, Technical Mgr..  
Audit and Attest Standards, File 4302  
AICPA  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Gibson:

On behalf of the State of New Jersey, Office of the State Auditor we appreciate the opportunity to respond to the exposure draft (ED) Statement on Auditing Standards (SAS) and Statement on Standards for Attestation Engagement (SSAE), *Establishing an Understanding with the Client*. We generally agreed with the ED and believe it will provide practical guidance and eliminate some misunderstandings.

Paragraph 5 of the ED indicates that the objectives, management and auditor responsibilities, and limitations of the engagement should be documented in the working papers, "preferably through a written communication with the client." If the Board believes there are reasons or circumstances where oral communication would be satisfactory, these should be explained by example in the body of the paragraph or through a footnote. As a matter of practice, our office would prefer that it be a written requirement.

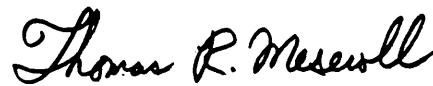


Kim M. Gibson, Technical Manager  
Page 2  
June 17, 1997

Paragraph 6 and 7 provide additional guidance for consideration in a SAS engagement, but similar guidance is not provided for a SSAE engagement. Such additional guidance would be beneficial for practitioners performing attestation engagements. We therefore recommend the expansion or addition of new paragraphs after paragraph 32.

We appreciate the opportunity to comment on this ED. Should you have any questions regarding our response please call me at (609) 292-1897.

Sincerely,

A handwritten signature in black ink that reads "Thomas R. Meseroll". The script is cursive and fluid, with the first letters of the first and last names being capitalized and prominent.

Thomas R. Meseroll, CPA  
Technical Director

TRM/dst

*Price Waterhouse LLP*



June , 1997

Ms. Kim Gibson  
Technical Manager  
Audit and Attest Standards  
File 2138  
American Institute of  
Certified Public Accountants  
1211 Avenue of the Americas  
New York, New York, 10036-8775

Dear Ms. Gibson:

Exposure Draft  
Establishing an Understanding  
with the Client

We are pleased to have this opportunity to comment on the Auditing Standards Board's Exposure Draft of the proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements, "Establishing an Understanding with the Client," which we approve.

Sincerely yours,

*Price Waterhouse LLP*

**Coopers  
& Lybrand**

Coopers & Lybrand L.L.P.

a professional services firm

101 Hudson Street  
Jersey City, NJ 07302

telephone (201) 521-3004

facsimile (201) 521-3020

June 16, 1997

Ms. Kim M. Gibson  
Technical Manager, Audit and Attest Standards  
File 2138  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Gibson:

We are pleased to submit this letter in support of the issuance of the proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements, Establishing an Understanding with the Client.

Within the context of overall support, we suggest that the fifth bullet point under paragraph 7 of the proposed SAS, "Any limitation of or other arrangements regarding the liability of the auditor or the client" be modified by adding, ",such as indemnification to the auditor for liability arising from knowing misrepresentations to the auditor by management." This would be consistent with the relevant Ethics Interpretation.

Furthermore, we believe that the objectives of the proposed SAS would be significantly advanced by changing the expressed preference in paragraph 5 for a written communication to be a requirement. We do not feel that strongly about changing the proposed SSAE for this point.

Please contact James S. Gerson at (201) 521-3004 if you have any questions.

Very truly yours,

*Coopers & Lybrand L.L.P.*



# CROWE CHIZEK

June 13, 1997

Kim M. Gibson  
File 2138  
AICPA  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Gibson:

We are pleased to comment on a proposed Statement on Auditing Standards, "Establishing an Understanding with the Client." We support this standard with minor revisions.

Paragraph 6 states the understanding generally should include a statement that the auditor is responsible for communicating reportable conditions of which he or she becomes aware. This statement of the auditor's responsibility is not precisely correct. AU 325.06, derived from SAS No. 60, indicates that "the auditor may decide the matter [reportable condition] does not need to be reported" in some circumstances. Paragraph 6 should be revised to conform to AU 325.06.

We do not see a need to require (or as the proposal says, "generally includes") the auditor to communicate his or her responsibility for making certain communications. This standard should only require the auditor to state his or her responsibility to conduct the audit in accordance with generally accepted auditing standards, and not go so far as to require a further itemization of that responsibility in some areas (reportable conditions, other communications.) Move the discussion of the responsibility to communicate into the more optional items in paragraph 7.

Direct any questions to Jim Brown.

Very truly yours,

*Crowe, Chizek and Company LLP*

Crowe, Chizek and Company LLP

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Author: PC:cfreed@SBA2.usc.edu at INTERNET

Date: 6/18/97 2:20 PM

Priority: Normal

Receipt Requested

TO: Kim Gibson at AICPA3

Subject: Exposure Draft--Establishing an Understanding with the Client

----- Message Contents -----

Ms. Gibson:

After reading the exposure draft on "Establishing an Understanding with the Client" is it safe to assume that the ASB is still not requiring engagement letters? In paragraphs 5 and 32 of the proposed standard

it says "the auditor should" and "preferably through a written communication".

If that is the case, then my question is why doesn't the ASB require engagement letters for all attest engagements just like they require Client Representation Letters?

June 20, 1997

Ms. Kim M. Gibson  
Technical Manager, Audit and Attest Standards  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, New York 10036-8775

**Re: File 2138**  
**Proposed Statement on Auditing Standards**  
**Establishing an Understanding With the Client**

Dear Ms. Gibson:

KPMG Peat Marwick LLP supports the issuance of the Auditing Standards Board's proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements, *Establishing an Understanding With the Client* ("Proposed Statement"). Presented for your consideration are our comments on the exposure draft:

1. The Proposed Statement is silent as to the timing of reaching an understanding with the client. We suggest indicating that this understanding should be reached prior to the commencement of the engagement.
2. We suggest guidance on what to do if the nature or scope of services changes. Significant changes to the original understanding with the client also should be communicated and documented.
3. The Proposed Statement is not explicit regarding the individual/body with whom the auditor should reach an understanding. We suggest that language be added clarifying that the understanding be reached with responsible members of management. This language would be similar to the language in AU 333.09 that states client representations "should be signed by members of management whom the auditor believes are responsible for and knowledgeable, directly or through others in the organization, about the matters covered by the representations."

Page 2

Ms. Kim M. Gibson

American Institute of Certified Public Accountants

June 20, 1997

4. We believe it would be appropriate to add language such as the following to help clarify the need for an understanding between the auditor and the client:

“Such an understanding reduces the risk that the client may inappropriately rely on the auditor to protect the entity against certain risks or to perform certain functions that are the client’s responsibility.”

5. Paragraph 6 speaks to reportable conditions without defining what a reportable condition is. We believe the definition of reportable conditions (AU 325.02) should be included in the same paragraph that reportable conditions are mentioned.
6. We believe the understanding with the client as noted in paragraph 6 should specify the period of the financial statements to which the audit relates.
7. If the understanding with the client is reached via a written communication, we believe such communication should indicate that its purpose is to confirm the understanding of the services to be performed.
8. Paragraph 7 of the Proposed Statement notes that the understanding may include any limitation on auditor liability. Such limitations are inappropriate when the audit report, or the financial statements being attested to, will appear in a document filed with the SEC or certain other regulators. This should be noted, perhaps in a footnote.
9. For clients that are SEC registrants, an understanding should be reached as to the following:

- Auditor responsibility relating to other information in documents containing audited financial statements:

“We will read the other information in your registration statement (*or annual report*) and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, our audit does not include the

Page 3

Ms. Kim M. Gibson

American Institute of Certified Public Accountants

June 20, 1997

performance of procedures to corroborate such other information (including forward-looking statements)."

- Auditor responsibilities under the Private Securities Litigation Reform Act of 1995:

"If we become aware of information indicating that an illegal act may have occurred, we will bring such information to your attention and follow the other procedures set forth in the Private Securities Litigation Reform Act of 1995 (the 1995 Act). Under certain circumstances, the 1995 Act requires us to communicate such information to the SEC."

- The understanding regarding quarterly reviews:

"We also will review (client company's) unaudited quarterly financial information, before it is issued, for the quarterly and year-to-date periods ending March 31, June 30, and September 30, 19X8 and 19X7. These reviews will be performed in accordance with applicable professional standards and will consist primarily of inquiries and analytical procedures. Upon completion of each review, we will issue a written report addressed to the board of directors of (client company) that will state whether or not we are aware of any material modifications that should be made to the quarterly financial information for it to be in conformity with generally accepted accounting principles. Should conditions not now foreseen preclude us from completing a review and consequently prevent us from issuing a report as contemplated by the preceding sentence, we will advise you and the audit committee of (client company) promptly."

10. Additional matters that we believe should be noted in Paragraph 7 include any specific regulator requirements (such as access to working papers) as well as a description of the deliverables (e.g., a management letter, special regulatory reports, etc.)



Page 4

Ms. Kim M. Gibson

American Institute of Certified Public Accountants

June 20, 1997

11. Paragraph 32 provides only brief guidance regarding the understanding in an attestation engagement. We believe such guidance also should include many of the other matters noted in Paragraph 7.

We would be pleased to discuss our comments with you.

Very truly yours,

*KPMG Peat Marwick LLP*

KPMG Peat Marwick LLP

June 16, 1997

Ms. Kim M. Gibson, Technical Manager  
Audit and Attest Standards, File 2138  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, New York 10036-8775

Proposed Statement on Auditing Standards  
and  
Statement on Standards for Attestation Engagements  
*Establishing an Understanding With the Client*

Dear Ms. Gibson:

Ernst & Young LLP supports the issuance of the above referenced proposal to amend Statement on Auditing Standards No. 1, AU Section 310, "Relationship Between the Auditor's Appointment and Planning," and Statement on Standards for Attestation Engagements No. 1, AT Section 100, "Attestation Standards," to incorporate guidance about obtaining an understanding with the client regarding the services to be performed. We agree with the Auditing Standards Board's decision to provide authoritative guidance regarding this matter, and believe that the proposed guidance will help to reduce misunderstandings between CPAs and their clients regarding the nature of the audit and attest engagements to be performed.

We believe, however, that there is a contradiction within the proposed amendments to paragraph 5 of AU Section 310 and paragraph 32 of AT Section 100 that should be eliminated. The first sentence of both paragraphs provides that the auditor or practitioner "should establish an understanding with the client regarding the services to be performed." Then the last sentence of both paragraphs provides that "when the auditor/practitioner believes an understanding with the client has not been established, he or she should *ordinarily* decline to accept or perform the engagement." [emphasis added] Because we find it difficult to envision a situation where the auditor or practitioner would accept or perform an engagement when an understanding was not established, we recommend that the word *ordinarily* be deleted from the last sentence of both paragraphs. We see no need to soften the imperative contained in the first sentence.

We would be pleased to discuss this comment and recommendation with members of the Auditing Standards Board or its staff.

Sincerely,



# National State Auditors Association

June 18, 1997

## OFFICERS AND EXECUTIVE COMMITTEE

President  
**R. THOMAS WAGNER, JR.**  
Auditor of Accounts  
Townsend Building  
P.O. Box 1401  
Dover, DE 19903  
(302) 739-4241

President-Elect  
**KURT SJOBERG**  
State Auditor  
California

Secretary-Treasurer  
**THOMAS MCTAVISH**  
Auditor General  
Michigan

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Louisiana

**BARBARA J. HINTON**  
Legislative Post Auditor  
Kansas

**RONALD L. JONES**  
Chief Examiner of  
Public Accounts  
Alabama

**RICHARD L. FAIR**  
State Auditor  
New Jersey

Kim M. Gibson, Technical Manager  
Audit and Attest Standards, File 2138  
AICPA  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Gibson:

On behalf of the National State Auditors Association (NSAA), we appreciate the opportunity to respond to the exposure draft (ED) on the proposed Statement on Auditing Standards (SAS) and Statement on Standards for Attestation Engagements (SSAE), *Establishing an Understanding with the Client*. The following comments are based on the individual responses we received and are not intended to represent the views of all individual members. Individual state auditors are encouraged to comment separately.

We generally agree with the ED. Specifically, we agree with the need for gaining and documenting an understanding with the client about the objectives and limitations of the engagement, along with the relative responsibilities of the parties involved. The provisions contained in this ED are already followed for the majority of governmental audits.

However, we do offer the following comments for consideration by the Auditing Standards Board (Board) in developing the final document. Our comments are presented in paragraph sequence for ease of review.

## Establishing an Understanding with the Client

The third and fourth sentences in paragraph 5 regarding establishing an understanding with the client in the proposed SAS, state that "The auditor should document the understanding in the working papers, preferably through a written communication with the client. When the auditor believes an understanding with the client has not been established, he or she should ordinarily decline to accept or perform the engagement." We have two concerns with this guidance.

First, to ensure that both parties are adequately protected in the engagement, we believe that the auditor should always document the understanding with the client through written communication. This method of documenting the auditor's understanding with the client has been widely used throughout the profession.

Kim M. Gibson  
June 18, 1997  
Page 2

Also, this would eliminate any possible confusion as to the extent and form of documentation an auditor would have to adhere to, assuming he/she opted not to utilize a written communication with the client. Second, we believe that this paragraph should explicitly require the auditor to engage in sufficient communication before he or she determines that an understanding has not been established.

Therefore, we suggest that the Board revise the third and fourth sentences in paragraph 5 to read "The auditor should document the understanding in the working papers, through written communication with the client. When the auditor has engaged in sufficient communication with the client, but believes an understanding with the client has not been established, he or she should ordinarily decline to accept or perform the engagement."

We also suggest that the Board revise the third and fourth sentences of paragraph 32 of the ED, regarding establishing an understanding with the client in the proposed SSAE, in a similar manner.

On another matter, paragraph 5 requires the auditor to establish an understanding with the "client," but does not define "client." Is this the audit committee (realizing there are other statements that deal with audit committees), board of directors, chief financial officer, chief executive officer, or some combination of individuals? For clarity, we suggest that the Board define the term "client" in a footnote to paragraph 5.

Lastly, paragraphs 5 and 32 provide identical guidance for establishing an understanding with the client in the proposed SAS and the proposed SSAE, respectively. However, the proposed SAS also provides the auditor with additional detailed guidance in paragraphs 6 and 7 on those types of matters (e.g., the objectives of the engagement, management's responsibilities) that may be included in the understanding with the client. We believe that this guidance would also benefit the practitioner performing an attestation engagement. Therefore, we suggest that the Board expand the proposed SSAE to provide additional detailed guidance (presumably as paragraphs 33 and 34) on those types of matters that may be included in the understanding with the client.

We appreciate the efforts of the Board on this project and the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Kinney Poynter of NASACT at (606) 276-1147 or me at (302) 739-4241.

Sincerely,

A handwritten signature in black ink, reading "R. Thomas Wagner, Jr." in a cursive style.

R. Thomas Wagner, Jr.  
President

# ASSOCIATION of GOVERNMENT ACCOUNTANTS

---

June 16, 1997

Ms. Kim Gibson  
Technical Manager  
Audit and Attest Standards  
File 2138  
AICPA  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Gibson

The Association of Government Accountants (AGA), Financial Management Standards Committee (Committee) would like to provide the following comments on the AICPA's exposure draft on the Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements entitled Establishing an Understanding with the Client. The Committee, whose members are active accountants and auditors in federal, state, and local government, reviews and responds to proposed standards and regulations of interest to the AGA membership. Local AGA chapters and individual members are also encouraged to comment separately.

We generally agree with the provisions of the exposure draft but would like to offer the following comments which we believe would improve the guidance:

1. The third and fourth sentences in Paragraph 5 of the ED, regarding establishing an understanding with the client in the proposed SAS, state that "The auditor should document the understanding in the working papers, preferably through a written communication with the client. When the auditor believes an understanding with the client has not been established, he or she should ordinarily decline to accept or perform the engagement." To ensure that both parties are adequately protected in the engagement, we believe that the auditor should always document the understanding with the client through written communication. We believe that this paragraph should explicitly require the auditor to engage in sufficient communication before he or she determines that an

understanding has not been established. Therefore, we suggest that the third and fourth sentences in Paragraph 5 be changed to read "The auditor should document the understanding in the working papers, through written communication with the client. When the auditor has engaged in sufficient communication with the client, but believes an understanding with the client has not been established, he or she should ordinarily decline to accept or perform the engagement."

We also suggest that the third and fourth sentences of Paragraph 32 be amended regarding establishing an understanding with the client in the proposed SSAE, in a similar manner.

2. Paragraphs 5 and 32 of the ED provide identical guidance for establishing an understanding with the client in the proposed SAS and the proposed SSAE, respectively. However, the proposed SAS also provides the auditor with additional detailed guidance in Paragraphs 6 and 7 on those types of matters (e.g., the objectives of the engagement, management's responsibilities) that may be included in the understanding with the client. We believe that this guidance would also benefit the practitioner performing an attestation engagement. Therefore, we suggest that the proposed SSAE be expanded to provide additional detailed guidance on those types of matters that may be included in the understanding with the client.

We appreciate the opportunity to provide comments on this document. If you have any questions, or would like additional information, please contact me at (334) 242-9200.

Sincerely,



Sharon R. Russell, CPA, CGFM, Chair  
AGA Financial Management Standards  
Committee

cc: Mitch Laine  
AGA President

June 17, 1997

Kim Gibson, Technical Manager  
Audit and Attest Standards, File 2138  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Gibson:

The Auditing Standards Committee of the Maryland Association of CPAs reviewed the Exposure Draft entitled "Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements: Establishing an Understanding with the Client". Our Committee consists of local practitioners and educators with an interest in the audit function. We appreciate the opportunity to respond to the exposure draft and the following represents our comments:

Paragraph 6; second bullet on page 8:

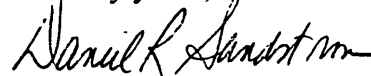
The Committee was generally uncomfortable with the sentence, "Accordingly, a material misstatement may remain undetected." We question whether this sentence is necessary and appropriate in light of the new fraud standards. For example, the sample engagement letter on page 167 of "Considering Fraud in a Financial Statement Audit: Practical Guidance for Applying SAS No. 82" makes no such mention of undetected material misstatement.

Paragraph 7; fifth bullet on page 8:

Establishing an understanding with the client regarding "any limitation of or other arrangement regarding the liabilities of the auditor or the client", appears to be an indemnification arrangement which could impair the independence of the auditors. For example, the SEC generally does not allow indemnification arrangements due to concerns over independence.

If you have any questions or would like to discuss our response with us, please contact me directly at 301-421-1330, or you can reach Carol W. Preston at the Maryland Association of CPAs at 410-296-6250.

Sincerely yours,



Daniel R. Sandstrom, CPA  
Chairman, Auditing Standards Committee

cc: J. Thomas Hood, CPA, Executive Director  
Scott R. Somerville, CPA, President

National Office  
Suite 800  
One Prudential Plaza  
130 E. Randolph Drive  
Chicago, IL 60601-6050  
312 856-0001  
FAX 312 861-1340

June 16, 1997

Ms. Kim M. Gibson  
Technical Manager  
Audit and Attest Standards  
File 2138  
AICPA  
1211 Avenue of the Americas  
New York, N.Y. 10036-8775

**Grant Thornton**   
GRANT THORNTON LLP Accountants and  
Management Consultants  
The U.S. Member Firm of  
Grant Thornton International

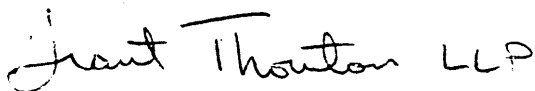
Dear Ms. Gibson:

We appreciate the opportunity to comment on the proposed Statement on Auditing Standards (SAS) and Statements on Standards for Attestation Engagements (SSAE), *Establishing an Understanding With the Client*. We support the issuance of the proposed standards by the AICPA Auditing Standards Board and submit the following comments for the Board's consideration:

1. General - If the intent of the proposed standards is to require that auditors update their understanding regarding services to be performed on an annual basis, this may be emphasized by adding "on an annual basis" or "for each engagement" at the end of the first sentence in paragraph 5. A similar modification should be considered for the proposed amendment to AT 100 as stated on page 9 of the exposure draft.
2. Paragraph 7 - Consideration should be given to adding a footnote to the fifth bullet to emphasize that arrangements to limit the liability or indemnify the auditor from liability may impair the auditor's independence if the engagement is to certify the financial statements that are included in a registration statement or annual report filed with the SEC.

If you should have any questions on any of the matters discussed in this letter, please contact Mr. John L. Archambault at (312) 565-4731.

Sincerely,

  
Grant Thornton LLP